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FEDERAL HOME LOAN BANK BOARD

A final rule that requires savings and loans to follow generally accepted accounting principles (GAAP) in preparing all financial statements and reports was approved by the FHLBB at a meeting held 5/5/87. (The final rule will be printed in the Federal Register in the near future, and was published as a proposed rule in the 5/5/86 Fed. Reg, pp. 16542-50). The rule also substitutes the term "risk analysis reporting" for "regulatory accounting practices" and creates a new definition for regulatory capital which would replace the term "regulatory net worth." Additionally, the rule requires thrifts to gradually increase regulatory capital to six percent of liabilities, with higher requirements for riskier investments. The rule takes effect 1/1/88. According to the FHLBB, each financial statement must contain a footnote providing a fair and full disclosure of the institution's reconciliation of equity capital, computed under GAAP, to regulatory capital and must also place on the statement wording that regulatory capital is the basis by which the FHLBB evaluates the capital position of an institution for purposes of supervisory action and evaluation of risk to the FSLIC. Under the rule adopted by the Board, thrifts are required to record marketable equity securities in accordance with GAAP; to use GAAP to determine losses or gains resulting from futures transactions; and to amortize premiums and accrete discounts on securities in accordance with GAAP.

TREASURY, DEPARTMENT OF

The effective dates of several of the regulations governing operations of government securities brokers and dealers have been delayed, the Treasury Department announced 5/4/87. The change in effective dates will be incorporated into the temporary regulations scheduled for release 5/26/87, which will be published in the Federal Register at that time. The proposed regulations were published in the 2/25/87 Fed. Reg. (see the 3/2/87 Wash. Rpt.). Included in the amended effective dates is the one for financial and depository institutions' recordkeeping and custody requirements; the required operational changes will become effective on the last business day in October, 1987. The regulations implement the Government Securities Act of 1986.

A seminar for sponsors of certain employee plans and interested practitioners will be conducted by the IRS on 6/5/87, the IRS announced recently. IRS Employee Plans Division personnel will discuss the use of cash or deferred arrangements (CODAs) in master and prototype employee plans to help plan sponsors and practitioners amend their profit-sharing plans to include CODAs. The discussion will also include other CODA topics and issues related to employee plans. The panel will answer questions submitted in writing before 5/28/87. Questions should be addressed to: Chief, Employee Plans Qualifications Branch, OP:E:EP:Q, Room 6550, Washington, D.C. 20224, Attention: Seminar. Seating is limited and reservations are required, according to the IRS. Reservations may be made by calling 202/566-3871. The seminar is scheduled for 9:30 a.m. to 12:30 p.m. at 1111 Constitution Ave., N.W., Washington, D.C.

SPECIAL: "BLUE BOOK" ON TRA '86 RELEASED BY GPO

The General Explanation of the Tax Reform Act of 1986, the "blue book," prepared by the Joint Committee on Taxation (JCT) has been released by the Government Printing Office. The "blue book" outlines the legislative history of the TRA '86 and details the law's provisions. The publication was written by the JCT staff in conjunction with other congressional tax writing committee staffs and Treasury Department officials. Blue books are usually produced by the staffs after enactment of major tax legislation. The document, stock no. 052-070-06311-4 may be purchased from the GPO for $31 by calling 202/275-3030.

SPECIAL: HOUSE PASSES BANKING LEGISLATION WITH GAAP PROVISION

A provision requiring the Federal Home Loan Bank Board (FHLBB) to prescribe uniform accounting standards consistent with GAAP by 12/31/87 was approved on 5/5/87 during House consideration of a plan to recapitalize the FSLIC, H.R. 27. Offered by Rep. Stan Parris (R-VA), the amendment does not affect the authority of the Bank Board or the FSLIC to authorize associations or insured institutions to utilize subordinated debt and goodwill in meeting their reserves and other regulatory requirements. According to Rep. Phil Crane (R-IL), the Parris amendment will bolster depositor and investor confidence by requiring S&Ls to phase out the use of the regulatory accounting practices, RAP. Rep. Crane continued by stating, "These accounting procedures have, unfortunately, misled the public by overstating the financial health of the savings and loan industry and encouraged mismanaged institutions to take excessive risks. By relaxing the reporting rules, RAP has caused the FSLIC to incur higher losses than would have been the case if the FSLIC had been using GAAP all along." The amendment was agreed to by a voice vote; H.R. 27 passed the House 402-6. The "Competitive Equality Banking Act of 1987," S. 790, as passed by the Senate on 3/27/87, contains a similar provision. The Senate bill requires the FSLIC to prescribe uniform accounting standards consistent with GAAP by 12/31/87, but does not include language relating to subordinated debt and goodwill. The Senate measure prohibits the FHLBB from directing an association to establish reserves against, or write down the value of, any asset in an amount in excess of the amount that would result from an evaluation of the asset consistent with GAAP. Although a conference is expected on the legislation, one has not yet been scheduled.

SPECIAL: REPORT RELEASED BY TASK FORCE ON THE TAX GAP

The more than $100 billion tax gap--the difference between the amount of taxes paid voluntarily by individuals and corporations and what would be collected if the compliance rate were 100 percent--could be substantially reduced by expanding taxpayer assistance and education and by increased enforcement efforts, according to a report recently released by a task force created by Rep. Byron L. Dorgan (D-ND). The task force was co-chaired by two former commissioners of the Internal Revenue Service, Donald C. Alexander and Jerome Kurtz, and included AICPA Tax Division Chairman Herbert J. Lerner and another AICPA member, Bernard M. (Bob) Shapiro of Price Waterhouse who was the former Chief of Staff of the Congressional Joint Committee on Taxation. The group estimates its recommendations would ease the tax gap by raising $105 billion in additional revenue in the next five years and an additional $35 billion each year thereafter. The proposal combines a new taxpayer education and assistance program with increased funding of IRS enforcement programs. It calls for a new pilot program of "taxmobiles" and "tax fairs" to assist taxpayers in preparing returns. The task force also recommends 1) adding 2,000 people to answer telephone inquiries with greater training to increase the accuracy of such assistance; 2) hiring 200 additional people to answer mail so the IRS can respond within 14 days; 3) adding 3,000 more auditors to the agency each year from 1988 through 1992 to increase to 2.5 percent the portion of returns that are audited (in 1986 1.14 percent of returns were audited); and 4) adding 1,200 new collection agents a year for five years to reduce accounts receivable and an extra 250 special agents per year for five years to investigate cases involving fraud or other criminal behavior. The estimated cost for the proposal, according to the task force, would be $3.6 billion, mostly for increasing IRS staff. The report labeled the tax gap "morally unacceptable" because "millions of honest taxpayers are carrying the burden of taxes unpaid by those who shirk their obligations." The report also found the tax gap "fiscally unacceptable" because it has "contributed in a major way to the Federal budget deficit."

SPECIAL: LEGISLATION INTRODUCED TO EXAMINE ACCOUNTING PRACTICES OF THE FEDERAL GOVERNMENT

Legislation to establish a Federal Accounting Practices Review Commission was recently introduced by Rep. Clay Shaw (R-FL), who is a CPA. The measure, H.R. 2287, requires the Commission to examine and describe the accounting, auditing, financial reports and financial management practices of the Federal government and to formulate a financial accounting and management system for use by the Federal agencies. The new system would be based on recognized AICPA practices, and allow for the different management structures and reporting needs of the agencies including standardized concepts and terminology and uniform reporting forms for use in communications among agencies. The standardized reporting forms would include annual balance sheets, annual revenue and expenditure statements and uniform procedures for cash flow reporting and asset acquisition and consumption reporting. In a recent letter, Rep. Shaw notes, "a major reason cited for our current deficit has been the inaccurate, incomplete and often contradictory financial information provided to Congress. Failure to require Federal agencies to submit standardized reports prepared according to GAAP is fiscally foolish and courts disaster." H.R. 2287, referred to the House Government Operations Committee, is identical to legislation Rep. Shaw introduced in the 99th Congress.

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